

Central Intelligence Agency



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DIRECTORATE OF INTELLIGENCE

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Party Elections in Malaysia:
Another Victory for Mahathir? (U)Summary

The leading party in Malaysia's governing coalition will hold elections this weekend that will decide who will hold the top government positions over the next three years. A banking scandal that has implicated top party officials, a bitter rivalry between candidates for the party's Deputy President position, and growing dissatisfaction within the Party's conservative wing over the performance of Prime Minister Mahathir until recently threatened to make this a particularly divisive race. [redacted]

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Over the past few months, however, Mahathir has overcome opposition challenges and the growing accusations of wrong-doing on the part of conservative spokesman Razaleigh have blunted the opposition's chances for success. We now expect key party leaders to retain their positions, and we will judge the selection of lower-level officials as a measure of Mahathir's strength over the next few years. [redacted]

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The Race for Deputy President

The dominant party in Malaysia's 11-party ruling coalition, the United Malays National Organization (UMNO), will elect new leaders for three-year terms during 25-28 May. UMNO delegates at the party General Assembly will vote for President, Deputy

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President, three Vice Presidents, 20 Supreme Council members, and, for two-year terms, youth and women leaders, who are ex-officio Vice Presidents. As the leading party in the National Front coalition, the top two UMNO offices translate into the government's Prime Minister and Deputy Prime Minister positions. [REDACTED]

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Prime Minister Mahathir bin Mohamed is running unopposed and thus will remain UMNO President. For the Deputy spot, incumbent Musa Hitam is being challenged by Finance Minister Razaleigh Hamzah--the leading spokesman of the party's conservative wing--and by Harun Idris, the number-two UMNO Vice President. It will, however, be essentially a two-man race. According to the US Embassy, Harun's power base has deteriorated and his ability to retain even his vice-presidential seat is open to question. [REDACTED]

The rivalry between Musa and Razaleigh is longstanding and bitter. In 1981 Musa, with Mahathir's backing, won against Razaleigh by less than 10 percent of the vote. The campaign divided UMNO and gave rise to speculation that the party would split. Although this did not occur, the bitter personal rivalry between Musa and Razaleigh has not abated. A year ago Razaleigh began to garner support within the party for a second challenge to Musa. As the campaign heated up, Mahathir defended Musa at the UMNO General Assembly and called for party unity. This thinly veiled warning to Razaleigh not to challenge Musa generated open criticism of Mahathir within the party. [REDACTED]

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Opposition to Mahathir Grows

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At the same time, Mahathir's own performance has drawn increasing fire from conservative elements within UMNO who support Razaleigh. Already unhappy with his blunt, outspoken style and his support of young, well-educated party members at the expense of the "old guard," conservative members have also been disappointed with Mahathir's limited actions on behalf of ethnic Malays (bumiputras).

-- Austerity measures instituted last year to curb the large budget deficit and the rapid growth of foreign debt have slowed expansion of government spending and set back progress under the New Economic Policy (NEP). A program aimed at increasing bumiputra corporate ownership in an economy dominated by ethnic Chinese, the NEP depends on continuing economic growth because the bumiputra share is intended to increase without reducing the absolute level of Chinese economic holdings.

-- The Bumiputra Malaysia Finance (BMF), a wholly-owned subsidiary of Bank Bumiputra and aimed at furthering the interests of ethnic Malays, has been surrounded by scandal. BMF made large unsecured loans to three Hong Kong Chinese property speculators, and as much as \$700 million may have been lost when the the Hong Kong

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property market collapsed. Mahathir came under fire for resisting calls to set up a commission to investigate the scandal, giving rise to speculation that he was involved in a cover-up. In addition, bank Chairman Nawawi Mat Awin, a Mahathir appointee, approved new loans when he came to the job even though problems had begun to surface.

- Mahathir further alienated UMNO's old guard by trying to amend the constitution to reduce the power of the King, who is elected every five years by Malaysia's nine sultans. Conservatives sided with the sultans on the grounds that the amendment threatened Malay tradition and heritage. After four months, the two sides compromised, allowing for a two-thirds Parliamentary vote to override a royal veto on a bill and leaving the remaining constitutional powers of the King intact.

Turning Setbacks into Assets

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Mahathir has weathered the storms. The BMF affair has been more of a political liability to Razaleigh than Mahathir. As Finance Minister, Razaleigh had close ties to many of the banking and Finance Ministry officials implicated. The press has linked Razaleigh to the scandal over the past year, and with the opening last month of the trial of the man accused of murdering a BMF official investigating the scandal, allegations of Razaleigh's involvement have increased.

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At the same time, Mahathir has weakened the conservatives' claims that he has ignored Islam and ethnic Malay rights by introducing several programs intended to further the interest of the bumiputras:

- His new agricultural policy aims to consolidate small landholdings into government-managed estates of higher efficiency that would increase the income of the largely ethnic Malay rural population.
- Kuala Lumpur recently increased pressure on commercial banks to issue loans to bumiputra small traders. The banks, which had been directed to provide 2.5 percent of their total loan allocation between 1983 and 1985 to bumiputra small traders, had only given out 0.8 percent by the end of 1983.

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By late April, it became clear that the conservatives would face nearly insurmountable odds in an attempt to replace Musa with Razaleigh. According to the US Embassy, Razaleigh believed he needed 30 to 50 nominations from the UMNO divisional

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elections* to make a run for Musa's position. But he only received nine nominations to Musa's overwhelming 94. Although these nominations do not commit the division's delegates, there is a positive correlation between nominations and delegate support. [redacted]

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Post-Election Outlook

We believe Musa will retain his position as Deputy President in UMNO and continue as Deputy Prime Minister. If so, Mahathir's position as Prime Minister will be strengthened. [redacted]

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At the same time, there is a strong possibility that Razaleigh will lose his party and government positions altogether, thus eliminating the conservative faction's most prominent spokesman. In 1981, he lost his UMNO Vice Presidency when he ran only for the Deputy post. Although Mahathir did appoint him to the Supreme Council**, his standing within UMNO fell because he did not hold one of the top positions. If Razaleigh makes a poor showing in the elections, Mahathir may not feel compelled to offer him another position on the Council. [redacted]

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The old guard also stands to lose in the elections for the three UMNO vice-presidential positions. According to the US Embassy, the conservatives are poorly represented among the eight candidates that have accepted nomination. A poor showing by conservatives would weaken their influence in the party over the longer term because advancement to these positions is viewed as a crucial step toward moving into the party's--and therefore the government's--senior ranks. [redacted]

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*UMNO branch elections were held in March followed by divisional elections in late April from which the 1,250 delegates to the UMNO General Assembly were chosen. Spread throughout Malaysia's thirteen states are 114 divisions which each elect 11 delegates. [redacted]

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**The Supreme Council has seven seats which are filled by Presidential appointment. [redacted]

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AnnexThe Bank Bumiputra Scandal

Bank Bumiputra (Bank Bumi) functions as the financial arm of Malaysia's New Economic Policy, which was initiated in the early 1970s to help ethnic Malays (bumiputras) gain a 30-percent share of the country's corporate wealth by 1990--up sharply from their 4.3-percent share in 1971. Finance Minister Razaleigh Hamzah was chairman of the bank from 1970 to 1976 and has been credited as the architect of Bank Bumi's rapid growth and continuing success. In early 1983 a scandal emerged with the disclosure that Bank Bumi's wholly-owned subsidiary in Hong Kong, Bumiputra Malaysia Finance (BMF), had made large unsecured loans to three Hong Kong Chinese property speculators. Because of the collapse of the Hong Kong property market, these loans became largely unrecoverable with losses to the bank estimated at \$700 million. The scandal grew deeper with the murder of Jalil Ibrahim in July 1983, a member of the Bank Bumi staff sent to Hong Kong in late 1982 to conduct an internal audit of BMF. [REDACTED]

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Speculation concerning the involvement of major political figures has held center stage throughout this affair. Although Razaleigh was no longer chairman when most of the unsecured Hong Kong loans were made, his successor, Kamarul Ariffin, was a close associate. Razaleigh was also closely associated with the five top BMF executives who were forced to resign their positions in late 1983. Most damaging, however, has been testimony which came out at Jalil Ibrahim's murder trial in Hong Kong. Convicted murderer Mak Foon Than, although he denied it later, stated that he was in Hong Kong at the time of the murder on the instructions of Razaleigh who told him he would be contacted by a Korean man whom Mak alleged was the murderer. Mak also maintained that he was in Hong Kong to collect \$6 million for Razaleigh--his "cut" of Hong Kong business operations. Razaleigh has strongly denied these allegations and maintains that he does not know Mak, who testified that he has worked for the Finance Minister for eight years. [REDACTED]

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There has been speculation that Prime Minister Mahathir also may be involved in the scandal. His closest economic and financial advisor, Nawawi Mat Awai, the present chairman of Bank Bumi, allegedly continued to approve the unsecured Hong Kong loans even after problems began to surface and other international banks were avoiding these loans. Also, speculation has centered on the possibility of Mahathir's involvement in a cover-up of the scandal while officials attempted to salvage the situation. The Prime Minister's reticence in establishing a formal inquiry into the matter (a three-man commission to conduct a closed-door inquiry into the affair was finally announced in January 1984) tends to support these allegations. [REDACTED]

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